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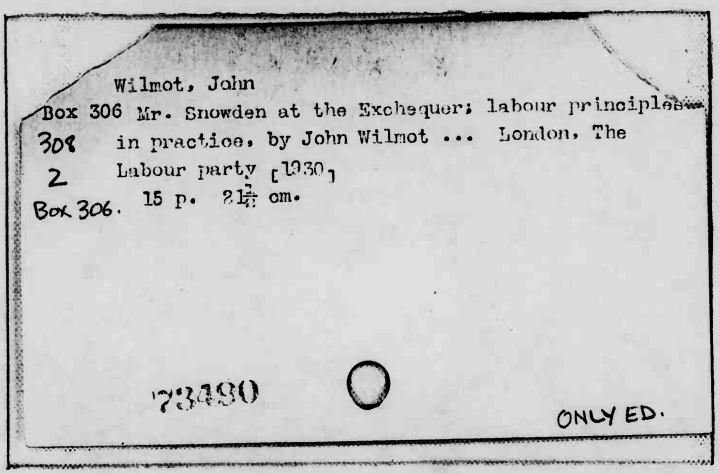
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Mr. SNOWDEN at the EXCHEQUER

Labour Principles in Practice

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Mr. SNOWDEN AT THE EXCHEQUER

Labour Principles in Practice

By JOHN WILMOT

The purpose of this pamphlet is to examine the policy pursued by Mr. Snowden as Chancellor of the Exchequer and by the Treasury under his direction, and to explain the difficulties with which he has been confronted, and the steps he has taken to meet them. It endeavours to show to what extent it has been possible to apply, in the first Session of the Labour Government, the principles upon which Labour financial policy is based.

Labour Policy

The financial policy of the Labour Party is summarised in *Labour and the Nation* under six headings :—

1. The progressive reduction of expenditure on armaments.
2. The abolition of taxes upon the necessaries of life and of protective duties.
3. The increase of the death duties upon large estates.
4. The further graduation of the income tax so as to relieve the smaller, and increase the contribution from the larger, incomes.
5. The establishment of an additional graduated surtax on incomes from property of over £500 per annum.
6. The taxation of land values.

What the Budget is

Before proceeding to examine the Budget of 1930, it may be well to be clear as to what the "Budget" really is. It is the annual statement of the nation's revenue and expenditure account for the past twelve months, an estimate for the next

twelve months, together with the Chancellor's proposals for raising the revenue necessary to meet the commitments for the year ahead, and for dealing with any deficit left over from the last year. What those commitments are is already determined by the various acts and estimates which Parliament has passed. The Budget is not, therefore, a scheme of expenditure, nor is it a plan of direct social reform, but is simply a statement of accounts, and of the methods to be employed in raising the money to meet the bills.

These bills will include, of course, the cost of the National Debt Services, of the Army, Navy, and Air Force and Pensions, of the Civil Service, Education, Insurance, Health Services, Contributions to Local Authorities, and so on for the current year, and in some cases provision for future expenditure. They will also include any debit balances brought forward from the previous year, and any old commitments not provided for in previous Budgets.

Churchill's Legacy of Debt

In considering Mr. Snowden's Budget of 1930-31, this last item is of great importance.

The problem which Mr. Snowden had to face was four-fold :

1. The depletion of various reserve funds which were raided in attempts to balance Mr. Churchill's previous Budgets.
2. Liabilities and obligations incurred by the Tory Government which were not fully provided for.
3. Increase in expenditure due to the improvement of various social services by the Labour Government.
4. A deficit on the financial year just closed due to the failure of Mr. Churchill's last Budget.

In order to appreciate the magnitude of the problem it is necessary to look back over the financial history of the last few years. Notwithstanding the large reductions in indirect forms of taxation which Mr. Snowden made in 1924, he left for his successor, Mr. Churchill, a disposable surplus of nearly £26,500,000. This was acknowledged by Mr. Churchill when on April 28, 1925, he said :—

> "The final and general result may justly be laid to the credit of the careful and scrupulous finance by which his (Mr. Snowden's) administration of the Treasury was distinguished.

From 1925 to 1929, while the Tory Government was in power, Mr. Churchill was Chancellor of the Ecxhequer. Throughout

this long period of office, the condition of the National Finances became progressively worse.

The Rake's Progress

The policy of Mr. Churchill was to make huge concessions and payments to the richest taxpayers, and to endeavour to meet his deficits by the appropriation of reserves and balances accumulated on special accounts to meet future expenditure, by using capital receipts as income, by anticipating future income, by neglecting to provide the recognised statutory amounts for debt redemption, and by large increases in indirect taxation on articles of common use. In short, a prodigal doling out of money to the well-to-do at the expense of the working people, and with an unscrupulous disregard both for financial principle and the future solvency of the country.

In his first Budget (1925-26) Mr. Churchill squandered the surplus inherited from Mr. Snowden by reducing the Super Tax and Income Tax by nearly £49,500,000 a year. As the greater portion of this remission went into the pockets of the rich, Mr. Churchill's political friends have to thank him for gifts which over the five years have amounted to nearly £250,000,000. Despite new indirect taxes the Budget Deficit for 1925-26 was £14,000,000.

In 1926-27, the effects of this prodigality accumulated, and a large deficit was inevitable. Heavy reductions in the State grants to insurance funds were made and the policy of raids began. The Health Insurance grant was reduced by £2,800,000 per year, and that to Unemployment Insurance by from £3,740,000 to £5,590,000 per year. The balance on the Army, Navy and Air Force Insurance Fund was raided for £1,100,000, and the Road Fund for £7,000,000.

By a reduction of the credit period to brewers from three to two months, an extra month's duty was brought within the year, an amount of £5,200,000. One-third of the duties on private cars and cycles, which previously went to the Road Fund, amounting to £3,500,000, was taken in as ordinary revenue. Further new taxes were imposed, including the infamous Betting Tax, and more Protectionist Duties, but even then the estimated surplus of £4,000,000 became a deficit of £36,649,000.

The policy of raids and overdrafts on the future revenue was continued in the Budget of 1927-28.

A further £12,000,000 was taken from the Road Fund, the brewers' credit period was again reduced, and again a month's revenue, amounting to £5,000,000, which properly belonged to

the next year, was taken in, and eighteen months' Income Tax under Schedule "A" was collected in the twelvemonth, a special receipt in that year of £14,800,000.

Further heavy additions to indirect taxation on tobacco, motor tyres, pottery, matches, and wines failed to save another deficit, which was only avoided because the death duties for the year exceeded the estimate by £9,500,000.

Doles for the Rich

Notwithstanding the chaos which the Public Finance had already reached and the evil effect on the national credit that was being reflected in the high cost of debt conversions, the Tory Government continued its policy of doles for the rich and brought forward and passed its Derating Act, which during 1928 and 1929 added enormous fresh burdens of indirect taxation and still left for a future Chancellor the task of meeting half its cost.

As from October 1, 1929, so-called productive industries were excused from payment of three-quarters of their local rates, while agricultural land and buildings (other than dwelling houses) paid no rates at all. As from December 1, 1928, railways, and from October 1, 1929, canals, harbours, and docks were also exempt from payment of all except one-quarter of their rates.

This relief was given to all industries scheduled as "productive," and included some of the most prosperous industries in the country, which were making huge profits, such as breweries, tobacco, and artificial silk firms, but relief was not given to householders, hospitals, or educational institutions, nor to shopkeepers or distributive wholesale businesses.

The loss of rates had to be made good to the local authorities by the Exchequer, the cost of which was about £30,000,000 per annum. About half of this sum was raised in indirect taxation, mainly by the Petrol Tax, while no permanent provision was made with regard to the remainder of the money which would have to be found.

By 1929 the Betting Tax had proved to be a complete fiasco and was abandoned.

The finance of the Widows' Pension scheme was equally unsound and improvident. The arrangements in the Act were such that contributions became payable by the contributors some time before the pensions began to be paid, and the number of pensions payable increased in later years. The result was that in the first years of the scheme a surplus of contributions over benefits began to accumulate, and Mr. Churchill, instead of

providing for the future liability by making even and adequate spread-over contributions from the Exchequer, paid the pensions out of the surplus, and fixed the Exchequer contributions so low that an enormous jump will become necessary to save the fund from insolvency.

By a somewhat different method the Unemployment Insurance Fund was raided and bankrupted. By the Tory Government's Acts of 1925 and 1926 the contributions of the State, the employers, and the workpeople were reduced by £10,000,000 per annum. If that had not been done, and the revenue had been maintained at the figure at which it was in 1925, instead of there being a debt of nearly £40,000,000 as there was in April, 1930, there would have been no debt at all, and all the new improvements which have been incorporated in the Unemployment Insurance Bill could have been met out of the unexhausted borrowing powers.

The policy followed with regard to the Sinking Fund for the repayment of the National Debt was equally disastrous. Mr. Baldwin, who was Chancellor in 1922-23, fixed £50,000,000 as a minimum annual amount to be placed to the Sinking Fund. This statutory obligation has not been fulfilled by Mr. Churchill, except in name. Although during the four years, 1925-28, the Sinking Fund provisions shown in Mr. Churchill's Budget totalled £240,000,000, and those sums were issued as the law required, owing to the fresh debt created to meet the deficits in 1925 and 1926, his actual effective payments for debt redemption totalled only £181,000,000. The very minimum amount provided should have been not less than £200,000,000, plus the sum transferred from the Currency Note Reserve, viz., £13,400,000, or £213,400,000 in all. Thus Mr. Churchill left another £32,000,000 to be found to make good his shortcomings in the Sinking Fund. Moreover, a sum of £3,300,000, being the repayment by the Dominions of loans, which was formerly applied directly to the reduction of the National Debt, was taken in as revenue.

This brief review indicates the seriousness of the financial consequences of Mr. Churchill and the results of his reckless finance during the last five years.

Well may Mr. Snowden have said :—

> "Had his Budgets been company balance sheets he would have found himself in the dock."

Knowing that he would not return to the Exchequer, he raided every reserve and realised every asset, and when at last he went, he had come to the end of his resources.

Mr. Snowden's Burden

The effect of this disastrous policy on the Budget position of 1930 was that, in addition to the deficit left by Mr. Churchill, amounting to £14,523,000, there had to be found the following amounts due to Mr. Churchill not having made proper provision for his commitments.

Derating scheme	£15,000,000
Unemployment Fund	£14,000,000
Widows' and Orphans' and Old Age Pensions	£5,000,000

to which must be added the following increases in expenditure :—

Normal growth of Old Age Pensions	£1,000,000
Increased Education grants ..	£2,500,000
Increased Health Insurance grants	£1,368,000
Increased subsidy for Beet Sugar and cost of development schemes	£3,585,000

On the other hand, the Labour Government *had reduced* the cost of the Fighting Services by £2,521,000. To sum up, the total estimates for 1930-31 were :—

EXPENDITURE	£781,909,000
Provision on account of Mr. Churchill's deficit	£5,000,000
	£786,909,000
REVENUE	
On basis of existing taxation ..	£739,645,000
Total to be found by new taxation	£47,264,000

Principles in Practice

Difficult as his task had thus been made, Mr. Snowden nevertheless applied the principles and policy for which the Labour Party stands.

In the course of his Budget Speech in the House of Commons on April 14, 1930, he said :—

> "The country shall pay its way by honest methods. . .
>
> "In imposing additional taxation I have done so by placing the burden on the shoulders best able to bear the weight. . . .
>
> "The favoured section of the community shall contribute to the needs of the State, in proportion to the benefits the State has conferred upon them."

These principles he carried into practice.

The Churchill policy of raids was reversed, and the borrowings stopped. The bills are to be paid and a beginning made in refilling the empty till. For the first time since Mr. Snowden left the Exchequer in 1924, an effort is made to place the National finances on a sound footing. Now let us turn to the other side of the account and see how Mr. Snowden is to raise that extra £47,264,000. He has applied his second principle by "Placing the burden on the shoulders best able to bear the weight." There are no new taxes on food, commodities or articles; no taxation of the poor. The money is to be paid by those well able to pay, by the well-to-do income tax payer, the surtax payers, the inheritors of large estates, and the brewers.

Income Tax and Surtax

The income tax is raised by 6d. in the pound, but the graduation is altered, so that the smaller incomes are protected. No married man with three children is called upon to pay more unless his income, if earned, exceeds £882 a year, or, if investment income, exceeds £735 a year; and there is no increase in the income tax paid by an unmarried person unless the earned income exceeds £582 a year, or, if investment income, £485 a year.

On large incomes over £2,000 a year, in addition to the increased income tax, there is increased surtax.

How these new rates work out and the taxation is adjusted according to the ability to pay may be seen by their effect on the following specimen incomes of married couples with three children :—

Total income	OLD CHARGE		NEW CHARGE	
	If income all earned income. Income tax (and surtax, if any)	If income all investment income. Income tax (and surtax, if any)	If income all earned income. Income tax (and surtax, if any)	If income all investment income. Income tax (and surtax, if any)
£	£ s. d.	£ s. d.	£ s. d.	£ s. d.
350	—	—	—	—
700	19 16 8	40 10 0	19 16 8	39 12 6
1,500	150 10 0	200 10 0	163 7 6	219 12 6
4,000	769 5 0	819 5 0	882 2 6	938 7 6
10,000	2,981 15 0	3,031 15 0	3,457 2 6	3,513 7 6
50,000	22,106 15 0	22,156 15 0	25,582 2 6	25,638 7 6
100,000	47,106 15 0	47,156 15 0	55,582 2 6	55,638 7 6

Death Duties

The Death Duties on large estates are increased as shown in the following table :—

Principal value of estate		Rate per cent. for each range		Increase in rate per cent.
		Old rates	New rates	
Exceeding £	Not (exceeding) £			
120,000	140,000	21	22	1
140,000	150,000	22	22	—
150,000	170,000	22	24	2
170,000	200,000	23	24	1
200,000	250,000	24	26	2
250,000	300,000	25	28	3
300,000	325,000	25	30	5
325,000	400,000	26	30	4
400,000	500,000	27	32	5
500,000	600,000	28	34	6
600,000	750,000	28	36	8
750,000	800,000	29	36	7
800,000	1,000,000	29	38	9
1,000,000	1,250,000	30	40	10
1,250,000	1,500,000	32	42	10
1,500,000	2,000,000	35	45	10
2,000,000	—	40	50	10

The Brewers

The duty on Beer is increased in such a way that it is not practicable to pass the increase on to the consumer, but so that it comes out of the profits of the brewers.

The yield of these four extra taxes on the well-to-do, together with the amount brought in from the Derating Suspensory Fund, provides the sum of £47,264,000 required, and a small surplus. The items are as follows :—

	£
Increase in Income Tax	21,000,000
,, ,, Surtax	7,500,000
,, ,, Death Duties	3,000,000
,, ,, Beer Duty	2,750,000
Suspensory Fund	16,000,000
	£50,250,000
Amount to be found	47,264,000
	2,986,000
Deduct net effect of minor changes ..	750,000
Surplus	£2,236,000

Preventing Tax Evasion

Steps were taken to prevent the evasion of taxation by rich men, by means of Limited Companies to dodge Death Duties, and single premium insurances to evade surtax.

Import Duties

The following safeguarding duties are not to be extended but are to expire at the appointed dates laid down in the legislation passed by the late Government :—

Lace to expire on June 30, 1930
Cutlery to expire on December 21, 1930
Gloves to expire on December 21, 1930
Gas Mantles to expire on December 21, 1930

Thus these taxes on articles in daily use are to be abolished.

Taxation and Rating of Land Values

The Labour Party has always held that a part of the constantly increasing value of land should be taken by the community, since the value is created in the main by the activities and expenditure of the community. The first step in the accomplishment of this long-overdue reform is the preparation of a complete and up-to-date valuation of all sites in the country. Mr. Snowden gave notice in his Budget statement of his intention to introduce a Bill for this purpose, which has since been printed, and will be brought before the House of Commons in the next Session. What form the contribution from these site values to the welfare of the community will take has yet to be determined; whether by way of a tax to the National Exchequer or a rate to the Local Authorities, or both. In any case, the valuation is an essential preliminary, and many besides those

in the Labour Party will rejoice that at last this measure of social justice is on the way to fulfilment.

The National Debt

The burden of the National Debt may be seen from the fact that in the estimate of expenditure for 1930-31 of a total of £782,209,000 no less than £304,600,000 was in respect of interest and expenses of the National Debt. The seriousness of this colossal annual expenditure and its crippling effect on the proper development of beneficial social services is acutely recognised by the Labour Party. Had its proposals for effecting a large reduction of the debt by means of a levy on capital been adopted at the time when such a course was practicable, the nation would now have been reaping the benefit of this wise step. As it is, the full burden of the debt remains practically unaltered, and the difficulty has been aggravated by Mr. Churchill's policy of meeting his Budget deficits by fresh borrowings.

Labour's policy with regard to the debt is to pay it off as quickly as possible from the proceeds of taxation of the rich, who, in the main, are the recipients of the annual interest payments, and in the meantime, by reductions of the floating debt and the consequent improvement in the national credit, to utilise opportunities of conversion to lower rates of interest.

This policy Mr. Snowden has successfully pursued.

The Debt position on the Government assuming office was highly unsatisfactory. The national credit stood at a very low level, Treasury Bills yielding 5¼ per cent. to 5½ per cent., short term bonds from £5 . 6s. to £5 . 7s., and long term stocks (such as 4 per cent. Consols) about £4 . 14s.

The cost of the Debt was very high and progress in reducing the interest charge had for many years been disappointingly slow, as shown by the annual Budget figures :—

	Interest
1922-3	£299,000,000
1923-4	£307,000,000
1924-5	£312,000,000
1925-6	£308,000,000
1926-7	£319,000,000
1927-8	£314,000,000
1928-9	£311,000,000

For the year 1929-30 the charge for interest had been put by the out-going Government at £304½ million, but events were to show that this was a serious underestimate.

As, under the arrangements made in 1928 any increase of interest automatically reduces the amount available for debt redemption, these increases substantially reduced the nominal sinking fund which Mr. Churchill professed to provide. Moreover, in the earlier years of his administration the sinking fund was gravely impaired by the fact that his Budgets, despite the raiding of all possible reserves, ended in deficits which had to be met by fresh borrowings : when later some small Budget surpluses were secured, they were diverted from debt redemption to other purposes. Such net reduction of debt as was effected was largely nullified by the increase in the nominal amount of the debt resulting from the repeated issue of stock at a discount.

During the first few months of the Government's period of office market conditions became even more difficult than they had been in the previous years. The Stock Exchange boom in the United States, and the efforts to control it led to a series of increases in money rates in all countries, and under the influences of dear money the prices of British Government securities fell still lower until in September and October our long-term stocks could be bought to yield about £4 19s., short bonds £5 16s., while Treasury Bills at one time went to £6¼ per cent. At that time it was by no means an improbable supposition that the year's interest might cost £320 millions.

Resolute measures were therefore needed, and two great operations were undertaken, the issue of the 5 per cent. Conversion loan in November, 1929, and a further issue of 4½ per cent. Conversion loan in February, 1930. In the circumstances it was quite impossible to hope for any reduction of interest on the maturing debt, but the essential objective was gained and sufficient cash was obtained on reasonable terms and without appreciably increasing the nominal total of the debt to meet maturities and provide an additional sum of nearly £160 millions for the reduction of the floating debt. With such large reductions being made in their total, and with the collapse of the United States of America Stock Exchange boom, the price at which Treasury Bills could be issued improved with great rapidity. It was, of course, too late to produce its full effect in the year 1929-30, and the interest charge for that year, including money borrowed to pay Savings Certificate interest, was £312 millions, a much better result than had seemed probable in the autumn.

In October, 1930, there was a third operation, in which £105 millions was raised by the issue above par of 4 per cent. Bonds, 1934 to 1936. This will enable Mr. Snowden to repay the expensive 4 per cent. Tax Free War Loan (1929-42) and to deal also with a small amount of 4½ per cent. bonds which have been

called for repayment in January, 1931. The bonds were placed at an average rate of interest of $3\frac{7}{8}$ per cent. The issue was thus carried out at much the cheapest rate of any Government operation since the war. The saving to the State due to the conversion of the 4 per cent. Tax Free loan is over £600,000 a year.

In the Budget for 1930-31 the interest charge was estimated at £304,600,000. Provision was made for dealing with the Budget deficit of 1929-30, and the law was amended so as to require that in future Budget deficits must be handled as Parliament may direct, and not as the particular Chancellor of the Exchequer in office may determine for himself.

It may now fairly be reckoned that the interest charge for this year will work out well below £300 millions, and the long series of disappointing years of no interest reductions has been definitely ended. The yield on short bonds has followed the Treasury Bill rate and fallen heavily; the improvement in long-term stocks has been slower but still substantial. The volume of floating debt outstanding is lower than at any time since the war, and the position of our credit is thus in every way stronger. This may be seen from a comparison of the interest yield at the dates shown :—

Long Term, *e.g.*, 4 per cent. Consols			Short Bonds, *e.g.*, $4\frac{1}{2}$ % Treasury Bonds, 1932-34			Treasury Bills	
Date	Price	Yield	Date	Price	Yield	Date	Yield
		£ s. d.			£ s. d.		£ s. d.
May 31, 1929	$86\frac{1}{4}$	4 14 2	May 31, 1929	$96\frac{5}{8}$	5 6 6	June 1, 1929	5 9 8
Sept. 30, 1929	$81\frac{5}{8}$	4 18 10	Sept. 30, 1929	95	5 16 3	Oct. 12, 1929	6 7 1
Oct. 31, 1930	$92\frac{5}{8}$	4 7 4	Oct. 31, 1930	$102\frac{1}{2}$	3 13 5	Oct. 31, 1930	2 1 3

Large debt operations cannot, of course, be considered solely from the point of view of cash savings, and to estimate their full effect broader considerations must be taken into account. With the collapse of world trade which began in 1929, it became clear that a continuance of the dear money then existing must greatly hamper recovery, and that a speedy reduction of short-term interest rates was necessary. Cheap money will not by itself produce trade recovery, or rather, while cheap money must always tend to help trade recovery the interval after which its effect will be felt cannot be predicted, and depends on numerous factors altogether beyond the control of a single country. Nevertheless, what can be done has been done. It is beyond

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question that the heavy reduction in the floating debt effected in November and February last greatly facilitated the rapid reductions in the Bank Rate in this country, and provided, so far as it was possible to provide, the conditions most likely to favour trade recovery.

It will be seen from this brief review that notwithstanding the exceptional difficulties created by the legacy of debt from their predecessors, the Labour Government has been able to make considerable progress along each one of the six lines of policy laid down in *Labour and the Nation*.

1. Expenditure on armaments has been reduced.
2. Protective duties have been reduced.
3. Death duties on large estates have been increased.
4. There has been a further graduation of income tax so as to relieve the smaller and increase the contributions from the larger incomes.
5. An additional graduated surtax on large incomes has been applied.
6. The first step has been taken towards the taxation of land values.

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